



March 29, 2011

The Honorable Mayor Kenneth I. Wright and  
The Honorable Members of City Council

Dear Mayor Wright and Members of Council:

### **Introduction**

As our country's economy continues to teeter and as its impact is being felt in the varying industries of the private sector and at all levels of government, the City of Portsmouth continues to advance its efforts in the direction of achieving positive outcomes and meaningful results. The ultimate goal is to achieve a quality of life that can be enjoyed by all the citizens of this City. As this effort and direction progresses, the fiscal challenges, addressed by prior fiscal year budgets, continue to be present as the FY 2012-2013 Biennial Budget was prepared and now presented. The recommended balance budget for FY12 and FY13 are \$553,631,327 and \$558,951,772 respectively. This proposed budget exhibits our continuing commitment to strong financial management practices. As the generation of new local revenue sources is stymied, coupled with the diminishing aid from the Commonwealth of Virginia, the recommended budget is balanced without the use of our 15% fund balance. As the biennial budget methodology is now established in the City, the FY12 budget is appropriated by the Council while the approved FY13 budget will provide the basis for our future operating and financial plans. Additionally, the City's multi-year capital improvement plan includes an appropriation for FY12 and approval of subsequent four years through FY16.

### **Budget Theme**

The theme from FY 10-11, "Sustaining our obligations in a sea of uncertainty" continues to be applicable and worthy of repeating; yet this year's theme, "Navigating the sea of economic challenges, while visioning the horizon of prosperity" provides the visionary look into a prosperous future.

### **Our Financial DNA**

The prevalent history of this City is not forgotten nor is it dismissed as we vision the future for our corporate and residential citizens, warmly referenced as the Portsmouth Family. The 2010 census revealed a decline in the City's population base to approximate 95,000 from a level of approximately 102,000 people. This decline clearly demonstrates and emphasizes one of the contributing factors to the City's continuing fiscally stressed

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condition. The demands upon our resources to sustain quality of life elements to include education, public safety, transportation and water and sewer infrastructure, are still a reality. The challenge to sustain and upgrade these tangible and intangible assets continues for our fiscally stressed City. The commonality of these fiscal challenges are shared by the Council, our Administration, and our citizens as we collectively continue to pursue identification of those methods and workable plans that will provide for the sustainment and enhancement of the quality of life elements we enjoy and desire to create for future generations. The use of strategic planning and calculated risk taking strategies continue to be deployed in an effort to maximize our service delivery. This serves to shield us from the potential financial, human, and catastrophic events being experienced in the immediate area and throughout the United States.

### **Our Obligations**

Being a municipal entity that has fiscal responsibilities that we have created or generated to sustain our living environment or service delivery levels, we remain vigilant in our effort to meet these obligations. A significant and continuing financial obligation is related to the City's construction of the new Courts facilities brought about by a lawsuit filed by the Commonwealth of Virginia. We continue our commitment to provide a level of funding for education to sustain its human and structural assets, as the Council preserves its recognition of education as a key priority. Additionally, having to respond to an Environmental Protection Agency (EPA) regional consent order for Sanitary Sewer Overflow (SSO) is a significant challenge. These and other elements related to the City's operation are prevalent issues of our future that will be achieved with sound financial management philosophies and practices. This is evidenced by the key rating agencies recognizing and awarding the City with credit rating upgrades: (Moody's Aa2, stable outlook, Standard's & Poor's AA, stable outlook and Fitch AA, stable outlook). This is an affirmation of the City's progressing financial stability.

### **Revenues**

Staff continues its methodology of prudent revenue forecasting as this budget and financial plan preserves the recognition of the City's collection rate at the 96% level, an industry standard. A continuing practice of exhibiting gross revenues is sustained as the tax relief funding is exhibited independently and funded at a maximum of \$3 million.

This biennial budget's real estate tax rate has a recommended increase of six cents from \$1.24 to \$1.30 per \$100 assessed. The projected revenue that will be generated is approximately \$4.2 million. This increase will fund a 2% general wage increase for non-sworn employees, a 1% COLA for retirees, funding \$1.4 million of the request from the public school system and the rise in operating costs.

The budget exhibits various increases in fees for certain categories related to the operation of the public utilities, certain recreation amenities, as well as planning and parking. Conversely, a refuse fee reduction from \$37.52 to \$35.36 per month is proposed.

This budget proposes a carefully planned use of excess FY10 fund balance for one-time, nonrecurring expenses in both FY12 and FY13. This administration is extremely cognizant of the importance of not using one-time revenue for recurring costs.

### **Expenditures**

Resulting from the extensive time, effort and the commitment by the Council to compensate our public safety employees (sworn police and fire personnel), the appropriate funding to sustain a competitive wage level is included in the budget. This funding of a market-step increase will be evaluated utilizing a market study and implemented if necessary.

This budget will partially fund the \$9.6 million increase in funding requested by the Portsmouth Public School (PPS) administration. The City's inability to generate significant new revenue does not permit or facilitate the full funding of the requested amount. Two cents of the proposed real estate tax increase, which will generate approximate \$1.4 million, will be coupled with existing risk management pooled funds accumulated by the PPS to fund their needs. This serves to satisfy Council's commitment to sustain or enhance the funding to PPS. The proposed local funding level is \$51.7 million.

Funding is proposed in this budget to provide increased compensation to the general wage employees. A 2% general wage increase for non-sworn employees and a 1% COLA for retirees is recommended. The funding source for these initiatives was previously identified and shall be funded by two cents of the real estate tax increase proposed. As operating cost related to providing services to our citizens escalate, it is necessary to account for and fund these cost.

### **Capital Improvement Plan (CIP)**

A single new project is proposed for the biennium. The funding of a city-wide communications system for Public Safety and certain operating departments is recommended. This serves to address the communication challenges faced by our public safety employees as they respond and react to citizens' request for emergency services. This capital project is an essential element to maintain the high level of service expected by our citizens.

### **Other Expenditures**

The Real Estate Tax Relief for the Elderly and Disabled is maintained at the \$3 million level. During FY12 it is projected that certain amenities in the city that enhance the quality of life of our citizens will require financial support, as their operations do not result in their being self sustaining. The following subsidies are expected and factored into the budget for funding. They include the Children's' Museum - \$1.4 million, Bide-A-Wee and other golf operations - \$594,000 Virginia Sports Hall of Fame - \$550,000

nTelos Pavilion - \$355,000 and Willet Hall - \$97,000. General fund debt service payments for FY12 are \$24.2 million. The City's annual contributions for VRS/LEOS amount to \$ 9.1 million. The City owned pension plans' annual contribution for FY12 is \$17.1 million. The Portsmouth Police Department assumed responsibility for Intake Operations from the Sheriff's Office effective last July 1, 2010. As such, funding for those operations were budgeted in the Police Department's budget for FY12 and FY13.

### **Utilities**

The Department of Public Utilities/Works continues striving to deliver quality environmental services while maintaining affordable rates. We also continue to manage our share in obligations to a regional consent order from EPA relative to SSO.

### **Conclusion**

This biennial budget was prepared with consideration given to the Council's priorities and its Vision Statement. We continue to base our financial decisions on sound financial strategies and planning as we advance our efforts to provide quality services to the citizens of this City. A stable financial foundation will provide the stability to support our fiscal house.

Respectfully,



Kenneth L. Chandler  
City Manager